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BEFORE THE ARIZONA CORPORATION COMMISSION

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CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
TONY WEST
COMMISSIONER

IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE COMPANY
FOR APPROVAL OF ITS PLAN FOR
STRANDED COST RECOVERY.

DOCKET NO. E-01345A-98-0473

IN THE MATTER OF THE FILING OF
ARIZONA PUBLIC SERVICE COMPANY OF
UNBUNDLED TARIFFS PURSUANT TO
A.A.C. R14-2-1061 ET. SEQ.

DOCKET NO. E-01345A-97-0773

IN THE MATTER OF COMPETITION IN THE
PROVISION OF ELECTRIC SERVICES
THROUGHOUT THE STATE OF ARIZONA.

DOCKET NO. RE-00000C-94-0165

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
testimony of Greg Patterson on the Proposed Settlement, in the above-referenced dockets.

RESPECTFULLY SUBMITTED this 4th day of June, 1999.

Karen E. Nally
Scott S. Wakefield, Chief Counsel
Karen E. Nally, Counsel

AN ORIGINAL AND TEN COPIES
of the foregoing filed this 4th day
of June, 1999 with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

JUN 04 1999

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MV

1 COPIES of the foregoing hand delivered
2 this 4th day of June, 1999 to:

3 Jerry Rudibaugh, Chief Hearing Officer
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5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

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9 Legal Division
10 Arizona Corporation Commission
11 1200 West Washington
12 Phoenix, Arizona 85007

13 Ray Williamson, Acting Director
14 Utilities Division
15 Arizona Corporation Commission
16 1200 West Washington
17 Phoenix, Arizona 85007

18 COPIES of the foregoing mailed to
19 All Parties in Docket No. RE-00000C-94-0165

20

21 By Cheryl Kraulob
22 Cheryl Kraulob
23 Legal Secretary II
24
25
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DIRECT TESTIMONY

OF

GREG PATTERSON

ON BEHALF OF THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JUNE 4, 1999

1 Q. Please state your name, occupation, and business address.

2 A. My name is Greg Patterson. I am the Director of the Residential Utility Consumer Office
3 ("RUCO") located at 2828 North Central Avenue, Suite 1200, Phoenix, Arizona 85004.

4 Q. Please state your educational background and qualifications in the utility regulation field.

5 A. Appendix A, which is attached to this testimony, describes my educational background
6 and qualifications.
7

8 Q. What is your position on the Arizona Public Service ("APS") settlement?

9 A. The APS settlement is good for residential consumers and I support it.
10

11 Q. How will the settlement benefit residential customers?

12 A. The settlement provides a series of 1.5% rate decreases over each of the next 5 years.
13 This will allow all residential consumers, including those who remain on standard offer
14 service, to benefit from competition.

15
16 The settlement assures continuation of the Community Action Partnership – which
17 includes weatherization, facility repair and replacement, bill assistance, health and
18 safety programs and energy education. This will allow the Commission to protect
19 consumers through programs that have an assured funding mechanism and a proven
20 track record.

21 The settlement caps APS's stranded investment at \$350 million while disallowing \$183
22 million (net present value) of costs. APS also agrees to withdraw its various court
23 appeals.
24

1 Q. Could litigating these issues have led to a reduction of standard offer rates?

2 A. No. Standard offer rates can only be lowered through a general rate proceeding. In
3 practice this is difficult to arrange.

4
5 Q. Why?

6 A. If we assume a company is over earning, they are obviously not going to voluntarily file
7 a rate case. The ACC has to issue an Order to Show Cause ("OSC") and then prove
8 that rates are too high. This is an expensive, risky and politically-charged process.
9 The ACC might initiate this process once and maybe even twice over this five-year
10 period, but they certainly wouldn't issue an OSC every year.

11 Furthermore, a company facing annual rate proceedings has no incentive to lower
12 costs. The annual 1.5% rate decreases would never materialize because the
13 underlying costs would never decrease.

14
15 Q. Could litigating these issues have delayed competition?

16 A. Certainly. While we don't know if APS's legal challenges would have ultimately
17 prevailed. I believe the company could have substantially delayed competition.

18
19 Q. Is competition good for residential consumers?

20 A. It is in theory. Competition should make energy providers more efficient and more
21 responsive to consumer needs. Competition gives consumers choices and empowers
22 them to shop for services that meet their needs. Companies that respond well to those
23 needs will make a lot of money and those who don't respond well won't survive. If a
24

1 company builds an inefficient power plant or enters into an expensive coal contract it will
2 not be able to pass those high costs on to consumers.

3
4 Q. Will consumers benefit by this agreement even if they don't have access to
5 competition?

6 A. Yes. The standard offer rate decreases, disallowance of certain costs, and continuation
7 of low-income programs benefit consumers. Additionally, the benefits of a highly
8 competitive market – efficient production, better service and lower prices – affect
9 consumers whether they choose to change suppliers or not.

10 Q. What was RUCO's position on the previous APS settlement?

11 A. RUCO opposed the previous settlement.
12

13 Q. Why?

14 A. The previous agreements were negotiated without significant input from consumer
15 interests. The rate decreases from these agreements were too small. The stranded
16 asset recovery was too big. The proposed sale of generating assets to APS from TEP
17 could have led to the ability of APS to exercise additional horizontal market power. The
18 proposal that TEP become the owner of the high voltage transmission within Arizona did
19 not seem workable.

20 Q. How does this settlement differ from the last one?

21 A. Consumers were invited to participate this time. The rate decreases are larger. The
22 stranded investment recovery is smaller. The proposed sale of generating assets to
23
24

1 APS from TEP has been eliminated. The proposal that TEP become the owner of the
2 high voltage transmission has also been eliminated.

3
4 Q. How much stranded investment would APS have collected under the order issued by
5 the Commission?

6 A. That's actually subject to some debate. Jack Davis testified to an estimate of \$533
7 million. However, he was careful to say that this amount was only valid under certain
8 assumptions. That number was reiterated in the August 21, 1998 filing, but the
9 company was clear that this was a "mitigated number." We don't know how much APS
10 would have asked for in a stranded cost proceeding.

11 Q. How much of their regulatory assets does APS collect under this agreement?

12 A. All of them.

13
14 Q. Why?

15 A. The regulatory assets were established by the ACC in 1985 and reaffirmed by the ACC
16 in Decision number 59601 in 1996. That collection is again reaffirmed in 1999's
17 Decision number 61677.

18 Q. Does this conclude your testimony?

19 A. Yes.
20
21
22
23
24

APPENDIX A

GREG PATTERSON

Education: University of Arizona
BSBA Accounting
With Distinction 1985

Certification: Certified Public Accountant

Experience: Residential Utility Consumer Office (RUCO) 1995 - present

- Director
- Represent residential consumer interests in electric, gas, telecommunications and water rate cases.